

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 IGA-02 AGRE-00 /083 W
-----036754 201010Z /21

R 200810Z SEP 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 5404
INFO AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY SINGAPORE
AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 1 OF 3 MANILA 14911

HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

E.O. 11652: NA
TAGS: EFIN, ECRP, EALR, RP
SUBJECT: BALANCE OF PAYMENTS PROJECTIONS, 1977 AND 1978

1.SUMMARY. FOR THE FIRST HALF OF 1977, EXPORTS ARE UP BY 23 PERCENT AND IMPORTS BY JUST 4 PERCENT, COMPARED TO THE FIRST HALF OF LAST YEAR. PROSPECTS FOR THE SECOND HALF ARE NOT AS UPBEAT, HOWEVER, AND EXPORTS ARE EXPECTED BY THE CENTRAL BANK (CB) TO FINISH THE YEAR 20 PERCENT AHEAD OF 1976, WITH IMPORTS UP BY 10 PERCENT. THE CB IS PROJECTING A 1977 TRADE DEFICIT OF \$970 MILLION, AND A CURRENT ACCOUNT DEFICIT OF \$884 MILLION, A SUBSTANTIAL IMPROVEMENT FROM LAST YEAR'S CURRENT ACCOUNT DEFICIT OF \$1,107 MILLION.

2. THE CAPITAL ACCOUNT DID PARTICULARLY WELL IN THE FIRST HALF, A SURPLUS OF \$555 MILLION, GIVING AN OVERALL BALANCE
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OF PAYMENTS SURPLUS OF \$232 MILLION. THE CB EXPECTS THE CAPITAL SURPLUS TO DROP OFF IN THE SECOND HALF, HOWEVER, AND FOR THE YEAR TO JUST EQUAL THE CURRENT ACCOUNT DEFICIT --- \$884 MILLION. A NEUTRAL BOP WOULD COMPARE WITH A DEFICIT OF \$160 MILLION LAST YEAR.

3. FOR 1978, THE CB IS LOOKING FOR AN 18 PERCENT INCREASE

IN EXPORTS AND 14 PERCENT IN IMPORTS, A TRADE DEFICIT OF A BILLION DOLLARS, CURRENT ACCOUNT DEFICIT OF \$840 MILLION, AND OVERALL SURPLUS OF \$68 MILLION. THE EMBASSY HAS NO REASON TO QUESTION THESE PROJECTIONS OF MODEST IMPROVEMENT IN THE BOP PICTURE FOR THE PHILIPPINES. END SUMMARY.

4. SINCE JULY, MANILA NEWSPAPERS HAVE CARRIED ARTICLES ABOUT A VASTLY IMPROVED TRADE AND BALANCE OF PAYMENTS (BOP) PICTURE FOR THE PHILIPPINES. THIS COMMENTARY HAS BEEN BASED, HOWEVER, ON RECEIPTS AND DISBURSEMENTS (R&D) DATA, NOT ON CUSTOMS DATA WHICH IS THE BASIS OF OFFICIAL BOP FIGURES. EMBASSY HAS IN HAND BOP FIGURES FOR THE FIRST SEMESTER, AND WHILE THEY SHOW AN IMPROVEMENT OVER THE SAME PERIOD IN 1976, THEY ARE LESS UPBEAT THAN THE PREVIOUS R & D FIGURES.

5. FOLLOWING ARE MERCHANDISE TRADE FIGURES FOR THE FIRST SEMESTER, COMPARED TO THE SAME PERIOD OF 1976 (\$ MILLION):

			PERCENT	
	JAN-JUNE 1976	JAN-JUN 1977	INCREASE	CHANGE
EXPORTS	1198	1474	276	23.0
IMPORTS	1820	1897	77	4.2

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BALANCE	-622	-423	PLUS 199	-32.0
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AS IS APPARENT FROM THE ABOVE, THE IMPROVED TRADE BALANCE COMES PRIMARILY FROM BETTER PERFORMANCE OF EXPORTS, WHILE IMPORTS HAVE INCREASED ONLY MODERATELY.

6. FOLLOWING ARE SOME COMPARISONS OF THE FIRST SEMESTER 1977 WITH THE FIRST SEMESTER OF 1976, ON THE BASIS OF CUSTOMS DATA, INDICATING THE PERFORMANCE OF BROAD CATEGORIES:

	PERCENT OF TOTAL EXPORT RECEIPTS	
EXPORT ITEM	PERCENT INCREASE, 1977 OVER 1976	INCREASE FROM THIS EXPORT
COCONUT PRODUCTS	39.3	35.6
SUGAR	26.6	22.2

FOREST PRODUCTS	20.0	7.8
MINERAL PRODUCTS	-1.0	-0.8
FRUITS AND VEGS.	16.6	4.2
ABACA	18.4	0.8
OTHER	29.9	30.1

7. FOR SEVERAL REASONS, THE SCALE OF EXPORT INCREASES REFLECTED ABOVE IS NOT LIKELY TO BE REPEATED IN THE SECOND HALF. PRICES FOR COCONUT PRODUCTS WERE GOOD

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HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

THROUGH THE FIRST FOUR MONTHS, BUT BEGAN TO SLIP IN MAY; COPRA PRODUCTION IS EXPECTED TO BE 2.15 MILLION TONS, SHORT OF LAST YEAR'S RECORD 2.6 MILLION TONS. IN SHORT, RECEIPTS FOR COCONUT PRODUCTS SHOULD BE BETTER THAN LAST YEAR, BUT NOT UP TO THE PACE OF THE FIRST SEMESTER. THE PRICE PICTURE IS NOT BRIGHT FOR EITHER SUGAR OR COPPER, THOUGH AN EXPECTED HIGH VOLUME OF SUGAR EXPORTS SHOULD INSURE A SOLID INCREASE IN RECEIPTS FOR THAT COMMODITY. EARNINGS FROM FOREST PRODUCTS APPEAR TO BE FAIRLY

FIRM, AS DO FRUITS AND VEGETABLES. THE "OTHER" CATEGORY INCLUDES \$40 MILLION FROM COFFEE, WHICH CB SOURCES TELL US WILL NOT BE REPEATED; THERE IS NO MORE COFFEE TO BE MARKETED. MANUFACTURES APPEAR TO BE A BRIGHT SPOT, THOUGH WHETHER THE STAR PERFORMERS -- GARMENTS (UP 56 PERCENT IN THE FIRST HALF), AND CHEMICALS (UP 73 PERCENT -- CAN MAINTAIN THEIR PERFORMANCE IS OPEN TO QUESTION. LIMITED OFFICIAL USE

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8. THE NET SURPLUS OF NON-MERCHANDISE TRADE AND TRANSFERS WAS \$86 MILLION, COMPARED WITH \$22 MILLION FOR THE SAME PERIOD LAST YEAR, THE MAIN DIFFERENCE BEING INCREASED REMITTANCES FROM CONTRACT WORKERS, NOTABLY IN THE MIDDLE EAST.

9. THE CURRENT ACCOUNT IS THUS IN DEFICIT BY \$323 MILLION DEFICIT IN THE FIRST HALF OF 1976.

10. THE CAPITAL ACCOUNT SHOWS A SURPLUS OF \$555 MILLION, COMPARED WITH \$425 LAST YEAR. PRINCIPAL ITEMS TO CHANGE ARE MEDIUM AND LONG-TERM LOANS (INCREASE OF SURPLUS FROM \$352 MILLION TO \$383 MILLION), SHORT-TERM CAPITAL (INCREASE OF SURPLUS FROM \$40 MILLION TO \$73 MILLION), AND ERRORS AND OMISSIONS (SHIFT FROM \$22 MILLION DEFICIT TO \$39 MILLION SURPLUS).

11. THE OVERALL BALANCE OF PAYMENTS FOR THE FIRST HALF IS THEREFORE IN SURPLUS BY \$232 MILLION, COMPARED WITH A DEFICIT OF \$173 MILLION FOR THE FIRST HALF OF 1976.

12. MEMBERS OF THE IMF STAFF VISITED MANILA IN LATE JUNE AND EARLY JULY FOR THE PURPOSE OF CONDUCTING THE MID-TERM REVIEW UNDER THE EXTENDED FUND FACILITY (EFF), AND THE EMBASSY HAS RECENTLY RECEIVED THE STAFF REPORT RESULTING FROM THAT VISIT. THE REPORT SHOWS REVISED BOP PROJECTIONS FROM THOSE MADE EARLY THIS YEAR, INDICATING SOMEWHAT LOWER EXPECTATIONS FOR BOTH EXPORTS AND IMPORTS, AND HIGHER NET INFLOWS FROM INVISIBLES AND THE CAPITAL ACCOUNT. THE CENTRAL BANK (CB) HAS RECENTLY MADE A FURTHER REVISION OF THESE PROJECTIONS FOR INTERNAL GOP USE. ALL THREE PROJECTIONS ARE SHOWN LIMITED OFFICIAL USE

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BELOW, WITH 1976 FIGURES FOR COMPARISON (\$ MILLION);

1977

 1976 FEB EFF JULY EFF CB

EXPORTS	2,516	3,204	3,140	3,030
IMPORTS	3,633	4,170	4,100	4,000
BALANCE OF TRADE	-1,117	-966	-960	-970
NET INVISIBLES	10	93	150	86
CURRENT ACCOUNT	-1,107	-873	-810	-884
NON-MONETARY CAPITAL	947	673	810	884
OVERALL BALANCE	-160	-200	---	---

13. SINCE NON-MONETARY CAPITAL IS EXPECTED TO BALANCE THE SUBSTANTIAL \$884 MILLION CURRENT ACCOUNT DEFICIT, THE CAPITAL ACCOUNT DESERVES A MORE DETAILED EXAMINATION. WHILE A BREAKDOWN IS NOT AVAILABLE FOR THE JULY EFF PROJECTION, WE DO HAVE DETAILS FOR THE EARLIER FEBRUARY PROJECTION AND THE MOST RECENT ONE FROM THE CENTRAL BAK (\$ MILLION):

	FEB EFF	CB
MEDIUM AND LONG-TERM CAPITAL	526	582
INFLOW	883	1,102

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OUTFLOW	-357	-430
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DIRECT INVESTMENTS (NET)	85	100
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R 200810Z SEP 77
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HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

SHORT TERM CAPITAL	328	142
INFLOW	1,439	1,757
OUTFLOW	-1,111	-1,615
ERRORS AND OMISSIONS	-65	60
TOTAL (NET)	939	884

14. THE CENTRAL BANK HAS ALSO MADE ITS OWN INTERNAL
PROJECTIONS OF THE 1978 BOP PICTURE. FOLLOWING ARE
THOSE PROJECTIONS (\$ MILLION):

	PERCENT INCREASE		
	1977	1978	OVER 1977 PROJECTIONS
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EXPORTS	3,030	3,572	17.8
IMPORTS	4,000	4,850	14.5
TRADE BALANCE	-970	-1,008	3.9
INVISIBLES	86	168	48.8

CURRENT ACCOUNT -884 -840 -4.9

NON-MONETARY

CAPITAL 884 908 2.7

OVERALL BALANCE 0 68 ---

15. COMMENT. AS INDICATED ABOVE, EXPECTATIONS FOR EXPANSION OF EXPORTS THIS YEAR HAS BEEN STEADILY SCALED DOWN, REFLECTING ADVERSE TRENDS IN SOME COMMODITY MARKETS AND PARALLELING CNT SLUGGISH GROWTH IN THE INDUSTRIAL NATIONS. MODEST EXPECTATIONS FOR THE SECOND HALF SEEM APPROPRIATE. IMPORTS, TOO, ARE EXPANDING MORE SLOWLY THAN FORECAST EARLIER, APPARENTLY DUE TO HESITANT DOMESTIC INVESTMENT. MORE OF THE SAME SEEMS IN STORE FOR 1978. TAKING THE MOST RECENT CB PROJECTIONS, EXPORTS ARE EXPECTED TO INCREASE 20 PERCENT THIS YEAR AND 18 PERCENT NEXT, WHILE IMPORTS ARE INCREASING 10 PERCENT AND 14 PERCENT. THUS, THE TRADE DEFICIT WOULD EVEN DETERIORATE SLIGHTLY, AND THE CURRENT ACCOUNT DEFICIT BE REDUCED ONLY SLIGHTLY. BASED ON WHAT WE KNOW OF PROSPECTS FOR EXPORTS, IMPORTS, AND INVISIBLES, SUCH A FORECAST SEEMS QUITE REASONABLE.

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16. NET CAPITAL INFLOWS ARE EXPECTED TO ROUGHLY BALANCE THE CURRENT ACCOUNT DEFICIT IN BOTH 1977 AND 1978, AND HERE AGAIN, WE SEE NO REASON TO CHALLENGE THE CB'S PROJECTION, THOUGH ERRORS OF UP TO 10 PERCENT WOULD NOT BE SURPRISING IN FORECASTING CAPITAL FLOWS FOR THE PHILIPPINES. AS FOR THE REMAINDER OF 1977, CB SOURCES ADVISE THAT THE HEFTY SURPLUS (3570 MILLION) FOR THE FIRST HALF INVOLVED SOME ANOMALIES WHICH ARE NOT LIKELY TO BE REPEATED, ACCOUNTING FOR MORE MODEST EXPECTATIONS FOR THE SECOND HALF.

17. IMPROVEMENTS ON THE TRADE AND CURRENT ACCOUNTS IS PAINFULLY SLOW, BUT THE OVERALL BOP SURPLUS FOR THE FIRST HALF AND EXPECTED BALANCE FOR THE YEAR ARE BETTER THAN EARLIER EXPECTED. RECENT DOWNBEAT PROGNONES FOR THE INDUSTRIAL COUNTRIES, HOWEVER, SUGGEST THAT EVEN THIS LIMITED PROGRESS IS TENUOUS. END COMMENT

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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Disposition Reason:
Disposition Remarks:
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Review Release Date: n/a
Review Release Event: n/a
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Review Withdrawn Fields: n/a
SAS ID: 1209192
Secure: OPEN
Status: NATIVE
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TAGS: EFIN, ECRP, EALR, RP
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Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/649b0a42-c288-dd11-92da-001cc4696bcc
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